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White House Rehashes Old Accounting Gimmick to Attack Education Bill

Administration Flunks Third "R": 'Rithmetic

Senator Coverdell has proposed, and the House has passed, an expansion of current law to allow parents to set aside money tax-free for their children's education -- not just for college as is currently permitted, but for Kindergarten-12th grade as well. The bill allows parents to contribute up to $2,500 (up from $500 as in current law) for their children's education expenses.

The Senate is on record supporting this innovation so important to parents. Senator Coverdell's amendment was adopted 59-41 (roll call vote No. 150) on June 27. The President then promised a veto of the Taxpayer Relief Act if the Coverdell education savings accounts were included in the final package, based on the recommendations of his Education and Treasury secretaries. Once again, the President's advisers are opposing this needed expansion of educational opportunities. On October 21, 1997, the White House issued its Statement of Administration Policy, justifying a veto on the education savings accounts bill:

> *"H.R. 2646 would divert needed resources from these [public] schools.* ***H. R. 2646 would disproportionately benefit the most affluent families*** *and provide little benefit to lower- and middle-income families."*

The issue of "diverting needed resources" is addressed later in this paper, but let's look at the "disproportionate benefit" assertion first.

The Administration Needs Remedial Math: Making Everyone Look Wealthy

The Clinton numerologists claim that the Coverdell bill will disproportionately benefit the rich and provide little benefit to lower-income taxpayers. They come to this conclusion by resurrecting the same gimmick -- a discredited accounting scheme they call "Family

Economic Income" (FEI) -- they used to try and stop the middle-class tax cut of 1997, and what worked for them in getting passage of the largest tax hike in history in 1993. FEI is designed to artificially inflate Americans' income, and simply makes everyone look more affluent than they are. In 1993, as it turned out, you were "rich" if you drove a car or received Social Security!

Here's part of the "new math" formula for how Clinton's Treasury Department figures income using its FEI:

> "*Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI [Adjusted Gross Income] unreported and under-reported income; . . . nontaxable transfer payments such as . . . AFDC; . . . inside build-up on pensions, IRAs, Keoghs, and life insurance; . . . and imputed rent on owner-occupied housing.*"

Note that the Administration defines FEI as a "broad-based income concept": in fact, it's so broad, no family computes their income like this, and neither does the IRS! And, note that "*FEI is constructed by adding to AGI unreported and under-reported income*" -- that is, it's not just "unreported" income, but ***unknown*** income to families -- income they don't see or spend.

What does all that add up to using Clinton's "new math?" It means that even if you don't know it and don't feel it, you are rich. It adds up to a deliberate distortion of parents' income for the purposes of class warfare. Among its misleading calculations, FEI counts as income:

- **"*imputed rent on owner-occupied housing*"** -- that is, even though you live in your house and don't rent it, you have to count as income the profit you could make if you did rent it!

- **"*nontaxable transfer payments such as ... AFDC*"** -- that is, welfare payments count, too.

- **"*inside build-up on pensions, IRAs, Keoghs, and life insurance*"** -- so, on top of the money you set aside for retirement, Clinton counts the buildup within the account, even though you don't see it and can't use it for years.

Counting Fictional Income Yields Fictional Results

The comparison below of JCT (Joint Committee on Taxation) and the Treasury Department's calculation of income quintiles shows just how much the Administration's gimmick can distort reality. The Treasury numbers inflate Americans' affluence and --

because a greater percentage of middle-class taxpayers are homeowners, for example, than are lower-income taxpayers -- do so to a greater degree in the higher income categories (note that the top 1 percent of income earners show a 75-percent disparity).

For example, Americans whose incomes are really about $39,000 would be inflated 39 percent by Treasury to $55,000; and an income of $64,000 would be inflated 46 percent by Treasury to become a whopping $93,000.

Quintiles	JCT	Treasury	Disparity
First	*	*	*
Second	$12,261	$16,950	38%
Third	$24,244	$32,563	34%
Fourth	$39,356	$54,758	39%
Fifth	$63,941	$93,222	46%
Top 10%	$88,641	$127,373	44%
Top 5%	$115,676	$170,103	47%
Top 1%	$233,959	$408,551	75%

[* The income levels shown are starting points for each quintile. The first quintile would start at $0 for either analysis, and so is not compared here.]

We are "Diverting Resources," Not From, But *To* Education

The President's advisers assert the Coverdell bill "would divert needed resources from [public] schools." In fact, H.R. 2646, as passed by the House, would not divert any resources from education but would instead bring new resources to public, private, and home schooling, and do so for the entire educational life of a child -- not just the college years of young adults. This bill is not a diversion in any sense of the word: it is a fully offset expansion of education savings accounts included in the Taxpayer Relief Act of 1997, and signed by the President. Furthermore, it would allow the money in these accounts to be used for K-12 expenses such as fees, tutoring, equipment, transportation, and other items that parents of public school students could take advantage of.

How they can claim that parents saving for their kids' future are diverting "needed resources" is difficult to figure, but it's indicative of their problems with "figuring" and perhaps suggests a bias against hard-working, future-oriented middle-income families.

Coverdell's Proposal Earns an A+

JCT has done its own estimate -- without using the FEI gimmicks -- and it shows how the Coverdell bill helps the middle class:

- 87 percent of the tax benefits go to families earning $100,000 or less; and
- 70 percent of the benefits go to families making $75,000 or less.

Further, consider that current law states (and would not be amended by the Coverdell proposal) that the provision does not even fully apply to families with one earner making above $95,000 and is fully phased out at $110,000. For dual-earner families, it phases out beginning at $150,000.

- By law, the provision does not even fully apply to families that the Clinton Administration wants to claim get the bulk of its benefits.
- If the Administration truly is concerned that the income limits favor the wealthy, why did it request these limits and then sign them into law just months ago?

Administration Gets the Dunce Cap

When you count fictional income, it's no wonder you get fictional results. Now, Clinton's advisers are back with the same phony finagling to claim a tax-free education account will only help the "rich." As it turns out, you are "rich" by Clinton standards if you have children and want to save for their education. The Administration is not just opposing the expansion of education savings accounts . . . they're flunking math to do it.

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